



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Offices of Audit Services

Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

OCT 18 2005

Report Number: A-07-04-00181

Mr. Jeff Hannah, Executive Director of Internal Controls  
AdminaStar Federal, Inc.  
8115 Knue Road  
Indianapolis, Indiana 46250

Dear Mr. Hannah:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of the Inspector General (OIG) report titled "Review of Medicare Contractor's Pension Segmentation Requirements at Anthem Insurance Companies, Inc. for the Period January 1, 1991, to January 1, 2003." A copy of this report will be forwarded to the HHS action official noted on the next page for her review and any action deemed necessary.

The HHS action official will make final determination regarding actions taken on all matters in the report. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports are made available to the public to the extent information contained therein is not subject to exemptions of the Act that the Department chooses to exercise. (See 45 CFR part 5.)

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, ext. 274, or contact Jenenne Tambke, Audit Manager, at (573) 893-8338, ext. 21, or through email at [Jenenne.Tambke@oig.hhs.gov](mailto:Jenenne.Tambke@oig.hhs.gov). Please refer to report number A-07-04-00181 in all correspondence.

Sincerely yours,

A handwritten signature in black ink that reads "Patrick J. Cogley".

Patrick J. Cogley  
Regional Inspector General  
for Audit Services

Enclosures

**Direct Reply to HHS Action Official:**

Jackie Garner  
Regional Administrator  
Centers for Medicare & Medicaid Services  
233 North Michigan Avenue, Suite 600  
Chicago, Illinois 60601

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICARE  
CONTRACTOR'S PENSION  
SEGMENTATION REQUIREMENTS AT  
ANTHEM INSURANCE COMPANIES,  
INC. FOR THE PERIOD JANUARY 1,  
1991, TO JANUARY 1, 2003**



**Daniel R. Levinson  
Inspector General**

**OCTOBER 2005  
A-07-04-00181**

# ***Office of Inspector General***

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In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.



## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Anthem Insurance Companies, Inc. (Anthem) administers Medicare Part A, Part B, Durable Medical Equipment (DME), and Regional Home Health Intermediary (RHHI) operations under its subsidiaries, AdminaStar Federal, Inc. (AdminaStar) and Anthem Health Plans of Maine, Inc. (Maine). Anthem and both subsidiaries operate under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).

For the purpose of this report, AdminaStar will be used to address the findings concerning the Medicare Part A, Part B, and DME pension plan segment assets for the period January 1, 1991, to January 1, 2003. Maine will be used to address the findings concerning the Medicare Part A and RHHI pension plan segment assets for the period December 31, 2000, to January 1, 2003.

Starting with fiscal year 1988, CMS incorporated segmentation requirements into Medicare contracts. The Medicare contract defines a segment and specifies the methodology for the identification and initial allocation of pension assets to the segment. Additionally, the contract requires Medicare segment assets to be updated for each year after the initial allocation in accordance with Cost Accounting Standards 412 and 413.

### **OBJECTIVES**

Our objectives were to determine if Anthem complied with the Medicare contracts' pension segmentation requirements while updating AdminaStar's Medicare segment assets from January 1, 1991, to January 1, 2003, and Maine's Medicare segment assets from December 31, 2000, to January 1, 2003.

### **SUMMARY OF FINDINGS**

Anthem did not comply with the Medicare contracts' pension segmentation requirements while updating AdminaStar's and Maine's Medicare segment assets. As a result, Anthem overstated AdminaStar's Medicare segment assets by \$440,294 from January 1, 1991, to January 1, 2003, and Maine's Medicare segment assets by \$192,694 from December 31, 2000, to January 1, 2003.

### **RECOMMENDATIONS**

We recommend that Anthem:

- decrease AdminaStar's Medicare segment pension assets by \$440,294 as of January 1, 2003;
- decrease Maine's Medicare segment pension assets by \$192,694 as of January 1, 2003; and
- implement controls to ensure that it updates the Medicare segments' assets in accordance with the Medicare contracts.

## **AUDITEE'S COMMENTS**

Anthem agreed with our report findings. Anthem also provided information that we used to clarify the report background. Anthem's response is included in its entirety as Appendix B.

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## **Glossary of Abbreviations and Acronyms**

AdminaStar	AdminaStar Federal, Inc.
Anthem	Anthem Insurance Companies, Inc.
CAS	Cost Accounting Standards
CMS	Centers for Medicare & Medicaid Services
Maine	Anthem Health Plans of Maine, Inc.
OIG	Office of Inspector General

# INTRODUCTION

## BACKGROUND

### Medicare

Anthem Insurance Companies, Inc. (Anthem) administers Medicare Part A, Part B, Durable Medical Equipment (DME), and Regional Home Health Intermediary (RHHI) operations under its subsidiaries, AdminaStar Federal, Inc. (AdminaStar) and Anthem Health Plans of Maine, Inc. (Maine). Anthem and both subsidiaries operate under cost reimbursement contracts with the Centers for Medicare & Medicaid Services (CMS).

Anthem merged with Blue Cross and Blue Shield of Kentucky (Kentucky) in 1993 and Community Mutual Insurance Company (CMIC) in 1995. On January 1, 1996, Kentucky and CMIC's Medicare operations were rolled into AdminaStar to form one company to handle Medicare program administration. Also, on January 1, 1996, the pension plans of Kentucky and CMIC were merged into Anthem's pension plan.

On June 5, 2000, Anthem merged with Blue Cross Blue Shield of Maine to form Anthem Health Plans of Maine, Inc. Effective January 1, 2001, Maine's pension plan was merged into Anthem's pension plan.

For the purpose of this report, AdminaStar will be used to address the findings concerning the Medicare Part A, Part B, and DME pension plan segment assets for the period January 1, 1991, to January 1, 2003. Maine will be used to address the findings concerning the Medicare Part A and RHHI pension plan segment assets for the period December 31, 2000, to January 1, 2003.

### Segmentation Requirements

CMS incorporated segmentation requirements into Medicare contracts starting in fiscal year 1988. The Medicare contract defines a segment and specifies the methodology for the identification and initial allocation of pension assets to the segment. Furthermore, the contract requires Medicare segment assets to be updated for each year after the initial allocation in accordance with Cost Accounting Standards (CAS) 412 and 413. Finally, in claiming costs, contractors must follow cost reimbursement principles contained in the Federal Acquisition Regulations, CAS, and Medicare contract.

We previously reviewed updates of segment assets by CMIC, Kentucky, and Maine. Our reviews addressed:

- CMIC's update of the segment's assets from January 1, 1986, to January 1, 1995 (A-07-96-01194);
- Kentucky's update of the segment's assets from October 1, 1986, to January 1, 1996 (A-07-97-01223); and

- Maine's update of the segment's assets from January 1, 1988, to December 31, 2000 (A-07-04-00182).

## **Regulations**

The CAS 412 regulates the determination and measurement of pension cost components. It also regulates the assignment of pension costs to appropriate accounting periods.

The CAS 413 regulates the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

Our objectives were to determine if Anthem complied with the Medicare contracts' pension segmentation requirements while updating AdminaStar's Medicare segment assets from January 1, 1991, to January 1, 2003, and Maine's Medicare segment assets from December 31, 2000, to January 1, 2003.

### **Scope**

We reviewed Anthem's identification of its AdminaStar Medicare segment, computation of the initial assets allocated to the Medicare segment, and update of Medicare assets from January 1, 1991, to January 1, 2003. Our review included Anthem's update of CMIC's Medicare assets from January 1, 1995, to December 31, 1995. We also reviewed Anthem's identification of its Maine Medicare segment and its update of Medicare assets from December 31, 2000, to January 1, 2003.

Achieving our objectives did not require us to review Anthem's overall internal control structure. However, we did review controls relating to the identification of the Medicare segments and the update of the segments' assets to ensure adherence to the Medicare contract, CAS 412, and CAS 413.

We performed fieldwork at AdminaStar's office in Louisville, KY, and Anthem's office in Indianapolis, IN, during September 2004, October 2004, and February 2005.

### **Methodology**

In performing this review, we used information provided by Anthem's actuarial consulting firm. The information included assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses. We reviewed Anthem's accounting records, pension plan documents, annual actuarial valuation reports, and Department of Labor/Internal Revenue Service Form 5500s. We also reviewed AdminaStar and Maine's accounting records.

The CMS Office of the Actuary staff used the documents to calculate Medicare segment assets as of January 1, 2003. We reviewed the methodology and calculations.

We performed this review in conjunction with our audits of the pension costs claimed for Medicare reimbursement (A-07-05-00187) and (A-07-05-00194). The information obtained and reviewed during the audits also was used in performing this review.

Details of the Medicare segments' updated pension assets from January 1, 1991, to January 1, 2003, are presented on Appendix A.

We conducted our review in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

Anthem did not comply with the Medicare contracts' pension segmentation requirements while updating AdminaStar's Medicare segment assets from January 1, 1991, to January 1, 2003, and Maine's Medicare segment assets from December 31, 2000, to January 1, 2003. As a result, Anthem overstated AdminaStar's Medicare segment pension assets by \$440,294 and Maine's Medicare segment pension assets by \$192,694 as of January 1, 2003.

### **MEDICARE CONTRACT & COST ACCOUNTING STANDARDS**

#### **Medicare Contract**

The Medicare contract identifies a Medicare segment as:

any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or,
2. Less than a majority of the salary dollars is allocated to the Medicare agreement/contract, and these salary dollars represent 40 percent or more of the total salary dollars allocated to the Medicare agreement/contract.

Furthermore, the Medicare contract states that: "The pension assets allocated to each Medicare segment shall be adjusted in accordance with CAS 413.50(c)(7)."

The contract also provides for separate identification of the pension assets of the Medicare segment. The identification involves the allocation of assets to the Medicare segment as of the first pension plan year after December 31, 1985, in which the salary criterion was met. The allocation is to use the ratio of the actuarial liabilities of the Medicare segment to the actuarial liabilities of the total plan, as of the later of the first day of the first plan year after December 31, 1980, or the first day of the first pension plan year following the date such Medicare segment existed.

## Cost Accounting Standards

The CAS 413.50(c)(7) requires that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. In addition, CAS 413.50(c)(8) requires an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.

Furthermore, the CAS 412.50(a)(4) states that for contractors with prepayment credits, the credits represent funds available to the contractors at the beginning of plan years. The funds should be applied first to satisfy funding requirements in order to reduce interest costs to the Federal Government.

## INITIAL ASSET ALLOCATION

CMS and Anthem reached agreement to use January 1, 1991, as the asset fraction date for AdminaStar. Anthem computed AdminaStar's asset fraction to be 8.69 percent and applied it to the total company pension assets as of January 1, 1991. As a result, AdminaStar's Medicare segment asset base was \$6,060,244 as of January 1, 1991. We agreed with Anthem's calculations.

## COMPONENTS OF ASSET UPDATE

Anthem did not comply with the Medicare contracts' pension segmentation requirements while updating AdminaStar's and Maine's Medicare segment assets. Anthem did not properly account for contributions and prepayments, other transactions, earnings and expenses, benefit payments, and transfers. The overstatements are summarized in Table 1.

<b>Table 1: Summary of Asset Adjustments</b>		
	<b>AdminaStar</b>	<b>Maine</b>
Contributions & Prepayments	(\$52,509)	\$0
Other Transactions	(38,045)	942,882
Earnings and Expenses	(436,481)	(723,035)
Benefit Payments	0	8,302
Transfers	86,741	(420,843)
<b>(Over)/UnderStatement</b>	<b>(\$440,294)</b>	<b>(\$192,694)</b>

### Contributions and Prepayment Credits Overstated (AdminaStar)

Anthem's update methodology did not equitably assign pension contributions to the AdminaStar Medicare segment. Primarily, Anthem did not correctly track and apply prepayment credits for AdminaStar. As a result, Anthem overstated segment assets by \$52,509.

In 2002, Anthem's contributions exceeded the required funding of CAS pension costs. According to the CAS, amounts funded in excess of pension costs (or prepayments) shall be

carried forward with interest to fund future CAS pension costs. Our computations considered the excess contributions in our calculations and made prepayment adjustments to fund CAS pension costs of the Medicare segment.

Contributions for the audited update were assigned using the pension costs as calculated by the CMS Office of the Actuary. The Medicare segment assets were \$52,509 less in the audited update due to differences in assigned contributions and prepayment credits.

#### **Other Transactions Overstated (AdminaStar)**

Anthem's update of AdminaStar's assets did not properly identify the Medicare assets associated with the CMIC plan merger. Anthem did not comply with the pension segmentation requirements while updating CMIC's Medicare assets from January 1, 1995, to December 31, 1995. Primarily, Anthem did not correctly identify contributions and prepayment credits for CMIC's Medicare segment. As a result, Anthem overstated CMIC's segment assets and, therefore, AdminaStar's assets by \$38,045.

#### **Other Transactions Understated (Maine)**

In a prior audit (07-04-00182), we determined that Maine's Medicare assets were understated as of December 31, 2000. The understatement occurred because Maine did not comply with the Medicare contract's pension segmentation requirements when it updated Medicare segment assets from January 1, 1988, to December 31, 2000. As a result, Maine's segment pension assets were understated by \$942,882.

#### **Earnings and Expenses Overstated (AdminaStar)**

Anthem overstated its investment earnings, less administrative expenses, by \$436,481 for the AdminaStar Medicare segment.

For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's weighted average value method (WAV) of assets to total company WAV of assets. Anthem allocated earnings and expenses using the WAV method. However, Anthem's approach did not use actual dates for plan contributions and other transactions. In our audited update, we allocated earnings and expenses based upon the applicable CAS requirements.

#### **Earnings and Expenses Overstated (Maine)**

Anthem overstated its investment earnings, less administrative expenses, by \$723,035 for the Maine Medicare segment. Anthem allocated earnings and expenses using the WAV method. However, in 2001, Anthem's allocation of total company earnings and expenses included total company merger activities. As a result, amounts not related to earnings and expenses were allocated to the Medicare segment. In our audited update, we allocated actual earnings and expenses based upon the applicable CAS requirements.

### **Benefit Payments Overstated (Maine)**

Anthem's update of segment assets did not properly identify benefit payments to retirees from Maine's Medicare segment. We identified the actual benefits paid to the retirees from the segment and assigned the costs to the segment. Anthem overstated benefit payments and understated segment assets by \$8,302.

### **Transfers Understated (AdminaStar)**

Anthem made adjustments for transfers in its update of AdminaStar's Medicare segment assets from January 1, 1991, to January 1, 2003. However, Anthem applied an incorrect and inconsistent liability methodology for some participants. As a result, Anthem understated AdminaStar's Medicare segment assets by \$86,741. We adjusted transfers in the audited update of Medicare segment assets based on correct and consistent actuarial liabilities.

A comparison of the Office of Inspector General's (OIG) and Anthem's calculations of net asset transfers into the Medicare segment is shown in Table 2.

<b>Year</b>	<b>OIG</b>	<b>AdminaStar</b>	<b>Difference</b>
<b>1991</b>	(\$9,703)	(\$13,294)	\$3,591
<b>1992</b>	(147,593)	(150,816)	3,223
<b>1993</b>	80,702	75,196	5,506
<b>1994</b>	(274,916)	(280,724)	5,808
<b>1995</b>	(3,305,490)	(3,305,490)	0
<b>1996</b>	147,793	147,793	0
<b>1997</b>	(1,086,340)	(1,086,340)	0
<b>1998</b>	(1,548,777)	(1,541,409)	(7,368)
<b>1999</b>	(879,037)	(879,037)	0
<b>2000</b>	(625,956)	(625,956)	0
<b>2001</b>	(3,860,396)	(3,936,377)	75,981
<b>2002</b>	(648,183)	(648,183)	0
<b>Total</b>	<b>(\$12,157,896)</b>	<b>(\$12,244,637)</b>	<b>\$86,741</b>

### **Transfers Overstated (Maine)**

Anthem made adjustments for transfers in its update of Maine's Medicare segment assets from December 31, 2000, to January 1, 2003. However, Anthem incorrectly identified the participants who transferred in and out of the segment. As a result, Maine's Medicare segment assets were overstated by \$420,843. The overstatement occurred primarily because Anthem did not account for all of the Medicare segment's non-active participants in its calendar year 2000 transfer adjustments. Transfers for the audited update were adjusted based on our corrections to participants who transferred in and out of the segment.

A comparison of OIG’s and Anthem’s calculations of net asset transfers into the Medicare segment is shown in Table 3.

<b>Table 3: Net Asset Transfers from the Medicare Segment</b>			
<b>Year</b>	<b>OIG</b>	<b>Maine</b>	<b>Difference</b>
<b>2000</b>	(\$181,856)	\$270,145	(\$452,001)
<b>2001</b>	(212,497)	(243,655)	31,158
<b>2002</b>	(972,879)	(972,879)	0
<b>Total</b>	<b>(\$1,367,232)</b>	<b>(\$946,389)</b>	<b>(\$420,843)</b>

**OVERSTATEMENTS OF MEDICARE SEGMENT ASSETS**

Anthem did not ensure that it updated the Medicare segments’ assets in accordance with the Medicare contract. As of January 1, 2003, Anthem overstated AdminaStar’s Medicare segment pension assets by \$440,294 and Maine’s Medicare segment pension assets by \$192,694.

**RECOMMENDATIONS**

We recommend that Anthem:

- decrease AdminaStar’s Medicare segment pension assets by \$440,294 as of January 1, 2003,
- decrease Maine’s Medicare segment pension assets by \$192,694 as of January 1, 2003, and
- implement controls to ensure that it updates the Medicare segments’ assets in accordance with the Medicare contracts.

**AUDITEE’S COMMENTS**

Anthem agreed with our report findings. Anthem’s response is included in its entirety as Appendix B.

**OFFICE OF INSPECTOR GENERAL’S RESPONSE**

We commend Anthem for its actions to address the recommendations. We clarified the report background with information Anthem provided.

# **APPENDIXES**

**Anthem Insurance Companies, Inc.**  
**Statement of Medicare Pension Assets**  
**For the Period**  
**January 1, 1991, to January 1, 2003**

Description		Total Company	Other Segment	AdminaStar Segment	Maine Segment
Assets January 1, 1991	<u>1/</u>	\$69,738,140	\$63,677,896	\$6,060,244	n/a
Prepayment Transfer		0	0	0	
Contributions	<u>2/</u>	0	0	0	
Other Transactions	<u>3/</u>	21,782,830	21,782,830	0	
Earnings	<u>4/</u>	14,111,707	12,871,115	1,240,592	
Benefit Payments	<u>5/</u>	(1,605,977)	(1,605,977)	0	
Expenses	<u>6/</u>	(474,013)	(432,341)	(41,672)	
Transfers	<u>7/</u>	0	9,703	(9,703)	
Assets January 1, 1992		103,552,687	96,303,226	7,249,461	n/a
Prepayment Transfer		0	0	0	
Contributions		0	0	0	
Other Transactions		(24,513,859)	(24,513,859)	0	
Earnings		7,339,512	6,789,556	549,956	
Benefit Payments		(4,037,806)	(4,037,806)	0	
Expenses		(696,647)	(644,447)	(52,200)	
Transfers		0	147,593	(147,593)	
Assets January 1, 1993		81,643,887	74,044,263	7,599,624	na/
Prepayment Transfer		0	0	0	
Contributions		0	0	0	
Other Transactions		16,137,486	16,137,486	0	
Earnings		10,884,177	9,844,845	1,039,332	
Benefit Payments		(4,116,912)	(4,116,912)	0	
Expenses		(525,700)	(475,501)	(50,199)	
Transfers		0	(80,702)	80,702	
Assets January 1, 1994		104,022,938	95,353,479	8,669,459	n/a
Prepayment Transfer		0	0	0	
Contributions		0	0	0	
Other Transactions		8,564,861	8,564,861	0	
Earnings		(2,085,777)	(1,904,049)	(181,728)	
Benefit Payments		(9,039,381)	(9,039,381)	0	
Expenses		(801,380)	(731,558)	(69,822)	
Transfers		0	274,916	(274,916)	
Assets January 1, 1995		100,661,261	92,518,268	8,142,993	n/a

**Anthem Insurance Companies, Inc.**  
**Statement of Medicare Pension Assets**  
**For the Period**  
**January 1, 1991, to January 1, 2003**

Description	Total Company	Other Segment	AdminaStar Segment	Maine Segment
Assets January 1, 1995	100,661,261	92,518,268	8,142,993	n/a
Prepayment Transfer	0	0	0	
Contributions	8,832,402	7,803,961	1,028,441	
Other Transactions	<u>8/</u> 104,900,769	95,092,458	9,808,311	
Earnings	27,729,523	25,054,592	2,674,931	
Benefit Payments	(32,494,756)	(32,494,756)	0	
Expenses	(1,063,905)	(961,275)	(102,630)	
Transfers	0	3,305,490	(3,305,490)	
Assets January 1, 1996	208,565,294	190,318,738	18,246,556	n/a
Prepayment Transfer	0	0	0	
Contributions	0	0	0	
Other Transactions	0	0		
Earnings	30,092,706	27,379,354	2,713,352	
Benefit Payments	(12,400,000)	(12,400,000)	0	
Expenses	0	0	0	
Transfers	0	(147,793)	147,793	
Assets January 1, 1997	226,258,000	205,150,299	21,107,701	n/a
Prepayment Transfer	0	0	0	
Contributions	5,601,876	5,601,876	0	
Other Transactions	81,514,769	81,514,769	0	
Earnings	47,035,461	42,878,565	4,156,896	
Benefit Payments	(17,234,518)	(17,234,518)	0	
Expenses	0	0	0	
Transfers	0	1,086,340	(1,086,340)	
Assets January 1, 1998	343,175,588	318,997,331	24,178,257	n/a
Prepayment Transfer	0	0	0	
Contributions	30,000,000	30,000,000	0	
Other Transactions	134,460,488	134,460,488		
Earnings	47,613,226	43,931,180	3,682,046	
Benefit Payments	(61,044,037)	(61,044,037)	0	
Expenses	0	0	0	
Transfers	0	1,548,777	(1,548,777)	
Assets January 1, 1999	494,205,265	467,893,739	26,311,526	n/a

**Anthem Insurance Companies, Inc.**  
**Statement of Medicare Pension Assets**  
**For the Period**  
**January 1, 1991, to January 1, 2003**

Description	Total Company	Other Segment	AdminaStar Segment	Maine Segment
Assets January 1, 1999	494,205,265	467,893,739	26,311,526	n/a
Prepayment Transfer	0	0	0	
Contributions	0	0	0	
Other Transactions	11,221,562	11,221,562	0	
Earnings	72,151,872	68,116,734	4,035,138	
Benefit Payments	(58,685,017)	(58,685,017)	0	
Expenses	0	0	0	
Transfers	0	879,037	(879,037)	
Assets January 1, 2000	518,893,682	489,426,055	29,467,627	n/a
Prepayment Transfer	0	0	0	
Contributions	16,578,523	16,578,523	0	
Other Transactions	40,375,963	32,928,350	0	7,447,613
Earnings	(13,595,890)	(12,801,855)	(794,035)	
Benefit Payments	(38,338,223)	(38,338,223)	0	
Expenses	0	0	0	
Transfers	0	807,812	(625,956)	(181,856)
Assets January 1, 2001	523,914,055	488,600,662	28,047,636	7,265,757
Prepayment Transfer	0	0	0	0
Contributions	70,119,086	70,119,086	0	0
Other Transactions	53,100,515	53,100,515	0	0
Earnings	(37,233,859)	(34,825,428)	(1,913,818)	(494,613)
Benefit Payments	(33,642,827)	(33,608,740)	0	(34,087)
Expenses	0	0	0	0
Transfers	0	4,072,893	(3,860,396)	(212,497)
Assets January 1, 2002	576,256,970	547,458,988	22,273,422	6,524,560
Prepayment Transfer	<u>9/</u> 0	(2,891,085)	2,891,085	0
Contributions	136,900,000	136,900,000	0	0
Other Transactions	21,630,469	21,630,469	0	0
Earnings	(67,886,464)	(64,206,991)	(2,921,895)	(757,578)
Benefit Payments	(51,633,987)	(51,633,987)	0	0
Expenses	0	0	0	0
Transfers	0	1,621,062	(648,183)	(972,879)
Assets January 1, 2003	615,266,988	588,878,456	21,594,429	4,794,103
Per Anthem	<u>10/</u> 615,266,988	588,245,470	22,034,723	4,986,795
Asset Variance	<u>11/</u> \$0	\$632,986	(\$440,294)	(\$192,692)

**Anthem Insurance Companies, Inc.**  
**Statement of Medicare Pension Assets**  
**For the Period**  
**January 1, 1991, to January 1, 2003**

**FOOTNOTES**

- 1/ We accepted Anthem's asset fraction (8.69 percent) as explained in the Findings section. The amounts shown for the other segment represent the difference between the total company and the Medicare segments. All pension assets are shown at market value.
- 2/ We obtained total company contribution amounts from the actuarial valuation reports and Department of Labor/Internal Revenue Service Form 5500s. We allocated total company contributions to the Medicare segments based on the ratio of the Medicare segments' funding target divided by the total company funding target. Contributions in excess of the funding targets were treated as prepayment credits and accounted for in the other segment until needed to fund pension cost in the future.
- 3/ We obtained other transactions from the actuarial valuation reports. Other transactions represent various plan merger activities.
- 4/ We obtained investment earnings from actuarial valuation reports. We allocated investment earnings based on the market value of Medicare assets at the beginning of the plan year after adjustment for transfers. For years starting with 1996, we allocated investment earnings based on the ratio of the segment's Weighted Average Value (WAV) of assets to total company WAV of assets as required by the Cost Accounting Standards.
- 5/ AdminaStar's methodology did not consider benefit payments from the segment's assets. We accepted this methodology. We based Maine's Medicare segment benefit payments on actual payments to Medicare retirees. Maine provided us with supporting documentation for benefit payment amounts to plan retirees.
- 6/ We allocated administrative expenses to the Medicare segment in proportion to investment income.
- 7/ We identified participant transfers between segments by comparing valuation data files provided by Anthem's consulting actuary. Our transfer adjustment considered each participant's actuarial liability. For AdminaStar, assets transfers for active participants were equal to the actuarial liability determined under the accrued benefit cost method, while non-actives were equal to the participant's vested liability. For Maine, asset transfers for all participants were equal to the actuarial liability determined under the accrued benefit cost method. Some participants were assumed to have zero liability since information was not readily available.
- 8/ Amounts shown for AdminaStar Federal, Inc. reflect the mergers of Blue Cross Blue Shield of Kentucky's Medicare assets (A-07-97-01223) and Community Mutual Insurance Company's (CMIC) Medicare assets (A-07-96-01194). We updated CMIC's Medicare segment assets to December 31, 1995, in order to correspond with the plan merger date.
- 9/ Prepayment credits represent funds available to satisfy future funding requirements and are applied to future funding requirements before current year contributions in order to reduce interest costs to the Federal Government. Prepayment credits are transferred to the Medicare segments as needed to cover funding requirements.
- 10/ We obtained asset amounts as of January 1, 2003, from Anthem's actuarial valuation report and documents provided by Anthem's consulting actuary.
- 11/ The asset variance represents the difference between the Office of Inspector General calculation of Medicare segment assets and Anthem's market value of assets.



# Medicare

A Medicare Carrier & Intermediary

T. Jeffrey Hannah

Regional Vice President

Internal Controls and Ethics & Compliance

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September 19, 2005

Department of Health & Human Services  
Office of Inspector General  
Offices of Audit Services, Region VII  
601 East 12<sup>th</sup> Street  
Room 284A  
Kansas City, Missouri 64106

Attention: Mr. Patrick J. Cogley,  
Regional Inspector General for Audit Services

**RE: Report Number A-07-04-00181**

Dear Mr. Cogley:

Thank you for providing your Draft Report on the Review of Medicare Contractor's Pension Segmentation Requirements at Anthem Insurance Companies, Inc. ("Anthem") for the Period January 1, 1991, to January 1, 2003. I write on behalf of Anthem and its subsidiaries, AdminaStar Federal, Inc. ("AdminaStar") and Anthem Health Plans of Maine, Inc. d/b/a Associated Hospital Service ("Maine"), in response to the Draft Report.

The Draft Report makes three recommendations, to which Anthem responds as follows:

1. Recommend that Anthem decrease AdminaStar's Medicare segment pension assets by \$440,294 as of January 1, 2003.

Response: Anthem concurs and will make the recommended decrease.

2. Recommend that Anthem decrease Maine's Medicare segment pension assets by \$192,694 as of January 1, 2003.

Response: Anthem concurs and will make the recommended decrease.



A CMS Contracted Carrier & Intermediary

3. Recommend that Anthem implement controls to ensure that it updates the Medicare segments' assets in accordance with the Medicare contracts.

Response: Anthem concurs and has already implemented processes and procedures designed to properly update the respective Medicare segment assets in accordance with the Medicare contracts.

Anthem also notes the following by way of clarification with regard to the background information in the Draft Report:

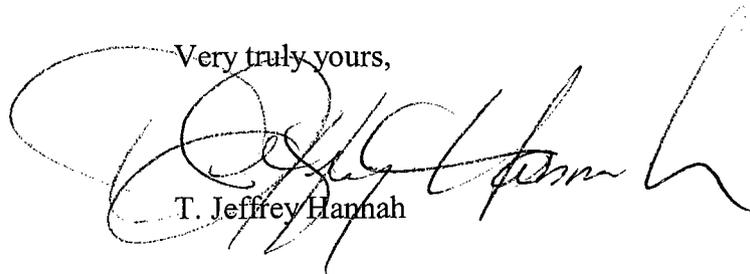
In 1991, AdminaStar began to serve as a subcontractor to Anthem handling the administration of Anthem's Medicare work in the Midwest (Part A, Part B, and Region B DMERC). Since 1996, the Indiana and Kentucky Part B contracts and the Region B DMERC contract have been held directly by AdminaStar.

The Part A and Regional Home Health Intermediary contracts in the Northeast (Part A: Maine and Massachusetts; RHHI: Maine, New Hampshire, Vermont, Rhode Island, Massachusetts and Connecticut) are held and performed by Anthem Health Plans of Maine, Inc. d/b/a Associated Hospital Service.

Thank you for the opportunity to respond to the draft report. Anthem appreciates the courtesy and professionalism demonstrated by the OIG in this audit.

If you have any questions or would like to discuss further, please let me know.

Very truly yours,

A handwritten signature in black ink, appearing to read 'T. Jeffrey Hannah', is written over a horizontal line. The signature is fluid and cursive.

T. Jeffrey Hannah

Cc: Michael McCarron  
Glenn Rhodes  
David Crowley  
Joanne Imel  
Peter McCloud